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California Energy Commission
Docket Office
Attention Docket 97-DC&CR-1
1516 Ninth Street, MS-4
Sacramento, California 95814-5512

RE: Docket No. 99-DIST-GEN-(2)
Southern California Edison Company's Comments on the Distributed Generation Strategic Plan (Draft Committee Report)

Dear Commission:

Attached are Southern California Edison Company's Comments on the Distributed Generation Strategic Plan (Draft Committee Report).

If you have any questions regarding this filing, please contact the undersigned.

Very truly yours,

Michael D. Montoya

MDM:aa:SCE's Comments on Draft DG Strategic Plan.doc

Enclosure(s)

cc: Scott Tomashefksy
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SOUTHERN CALIFORNIA EDISON COMPANY'S COMMENTS ON THE DISTRIBUTED GENERATION STRATEGIC PLAN (DRAFT COMMITTEE REPORT)

I. Introduction

As SCE noted in earlier comments on the California Energy Commission's (CEC or Commission) draft outline for the Distributed Generation Strategic Plan, SCE supports the development of cost-effective distributed generation (DG) and allowing consumers to make informed choices about DG. Ultimately, the choice of whether or not to install DG will be made by the customer, and SCE believes that the customer should be provided an opportunity to make unbiased and impartial choices based on the economic and environmental aspects of the various available energy options. SCE believes that the CEC should neither advocate nor promote DG. Instead, the CEC should be an information repository from which state policymakers may access information for use in developing energy policies. The primary goal of the CEC should be to evaluate and assess the capabilities and potential impacts of various distributed generation technologies.

It is apparent, however, from a review of the Distributed Generation Strategic Plan - Draft Committee Report (the Report) that the drafters of the Report have a different agenda in mind – one that places the CEC squarely in the role of the State's principal DG promoter. SCE questions whether this is an appropriate role for the Commission and whether such a role is consistent with the Commission's charter to "carry out studies, research projects, data

collection, and other activities required to assess the nature, extent, and distribution of energy resources to meet the needs of the state...."[1]

Notwithstanding the apparent eagerness to solve the State's energy problems through DG, SCE believes that the State is better served by a focused effort to evaluate the technological hurdles facing DG as an adjunct to the CPUC's efforts to develop appropriate DG policies. To that end, SCE recommends that the Commission revise the Report to remove the clear bias in favor of policies designed to promote the deployment of DG at any cost. Rather, the Commission should ensure that all sections of the strategic plan are consistent with the stated mission of developing programs and policies that effectively promote DG technologies only to the extent that such deployment benefits energy consumers, the electricity grid and the environment in California. This can only be accomplished by first determining through a thorough examination that DG would create such benefits. This has not yet been accomplished. To aid in this effort, the following comments highlight sections in the Report that run afoul of this mission statement.

II. Comments on DG Technology and Market Overview

Without much explanation, the Report includes a definition of Distributed Generation that includes demand side management (DSM) devices. SCE is not aware of any other definition of Distributed Generation in use today that includes DSM devices. DSM ordinarily consists of activities designed to encourage customers to modify their levels and patterns of electricity consumption. Unlike DSM, DG does not cause any reduction in the

[1] Public Resources Code § 25401

consumer's electrical energy consumption and is merely an alternative supply of the same electricity that would have otherwise been provided by the utility grid. Simply put, DSM is not a form of "generation" and thus SCE is perplexed as to how DSM can be viewed as a form of distributed generation. SCE believes that that the drafters may have confused the definition of distributed resources with the definition of distributed generation.

III. Comments On Vision, Mission, And Principles

SCE believes it is premature for the CEC to declare as its vision: "*Distributed generation will be an integral part of the California energy system, providing consumers and energy providers with affordable, clean, reliable, and readily accessible energy services.*"[2] The CEC's vision should be to determine **whether** DG can and should become an integral part of the California energy system.

Moreover, the adoption of a mission statement *to develop programs and policies that will effectively promote and deploy distributed generation technologies* is far too premature. The Commission's own Report supports this conclusion. Three paragraphs down from the mission statement, the Report notes: *"If we determine that California energy consumers can benefit with distributed generation, we would be inclined to fully support wide-scale deployment."* The Report includes a similar statement at page 29: *"It is critical that the Energy Commission perform a comprehensive assessment of technical, and market-based issues before concluding that distributed [sic] is a viable alternative or complement to central station power plants...."* Given these statements, it appears that the Report jumps the gun in adopting a mission

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[2] Draft Committee Report, p. 13.

statement calling for programs and policies that will promote and deploy distributed generation.

IV. Comments On Market Integration And Regulatory Issues

The Report notes "*a key issue impacting the distributed generation market is the recent decision by the CPUC to suspend direct access.*"[3] The Report claims that "*[s]uspension of direct access effectively removes an important benefit from potential users of distributed generation: the ability to sell excess power to retail customers.*"[4] These statements are not completely accurate and are not supported by the record of this proceeding or the record before the Public Utilities Commission (CPUC). The suspension of direct access has had no impact on the ability of a distributed generator to provide power directly to a retail customer. Prior to the suspension of direct access, the only retail transactions involving a distributed generator occurred in connection with an onsite generator or an over-the-fence transaction. While it is true that a party could have used direct access rules to establish a "private" or non-public group of generators serving customer loads both at the generator site and remotely through wholesale schedules with the ISO, the economics and practicality of such an arrangement is not favorable and, therefore, was not used by many (if any) customers. Operators of generators with surplus power today have equivalent opportunities to sell surplus energy in the market and simply transfer the money received rather than the kWh produced to offset energy costs at their remote locations. Thus, it is misleading to suggest that regulatory action by the CPUC has somehow impeded or frustrated the market for DGs. Moreover, even if the hypothesis presented by

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[3] Draft Committee Report, p. 19.
[4] *Ibid.*

the report were true, the State Legislature has already determined that suspension of direct access is in the public interest notwithstanding its other potential impacts.

V. Comments On The Potential Role Of Government In Addressing Issues And Opportunities

The Report addresses the potential role of government by noting "*commercial and industrial DG facilities can make these businesses more profitable by reducing their energy costs or by enhancing power quality/reliability within their operations.*"[5] SCE questions the basis for the conclusion. SCE has yet to see any evidence that the use of DG, absent current economic subsidies and incentives, will generally lead to reduction in electric energy costs. Although SCE certainly recognizes that certain customers might be able to utilize self-generation to reduce their overall energy costs, especially where high thermal energy requirements are present, SCE's experience has been that in many instances self-generation cannot be justified on energy costs alone. SCE, however, is hopeful that advancements in technology will provide more opportunities in the future for customers to reduce their energy costs through the use of onsite generation.

On the subject of utility regulation, the Report notes that *utility regulation applies to utility business practices, which may discourage consumer choice to install DG equipment.*[6] The Report includes a similar statement in the section entitled Role of State Agencies. There, the Report alludes to

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[5] Draft Committee Report, p. 20.
[6] *Ibid.*

"*tariffs that do not discourage self-generation*."[7] SCE takes issue with these descriptions. SCE is not aware of any SCE business practice or tariff designed to discourage consumer choice to install DG. Rather, SCE is focused on promoting policies that are consistent with cost-causation principles and are designed to treat all utility customers equitably. It is disingenuous to characterize any charge imposed on a self-generating customer as one that discourages the use of DG. Unless otherwise directed by the CPUC, SCE's obligation is to charge a customer appropriately for the costs incurred by the utility to serve that customer. This includes a customer that elects to self-generate. A self-generating customer should not be permitted to escape charges appropriately assigned to that customer on the simple claim that the charge or rate will discourage distributed generation. If this were an acceptable rate making principle, a self generating customer connected to the distribution grid would pay nothing. While SCE believes that this is the goal of many engaged in the DG debate, this Commission should not support it through rote characterizations.

VI. Comments on General Strategies

The Report begins the discussion on general strategies by quoting the following section from the Warren-Alquist Act passed in 1974: "the Commission shall encourage the balanced use of all sources of energy to meet the state's needs and shall seek to avoid undesirable consequences of reliance on a single source of energy."[8] The Report follows this quote with the conclusion that "Distributed Generation clearly falls within the context of

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[7] Draft Committee Report, p. 21.
[8] Draft Committee Report, p. 25.

alternative sources." SCE respectfully disagrees. This portion of the Warren Alquist Act was passed in the midst of the oil embargo of the 1970s. The emphasis at the time was on reducing U.S. commitment on foreign oil, not on promoting small, localized electric generators. Thus, SCE suspects, and believes that the legislative history would support, that the term "sources of energy" refers to the use of alternative or renewable fuels and not the notion of a domestic alternative to central station power. Thus, although SCE supports generally the CEC's interest in distributed generation, SCE disagrees that the Warren Alquist Act in any way mandates the Commission to "encourage" the use of DG.

The General Strategies includes a policy objective to "*Emphasize End-Use Efficiency Improvements*."[9] SCE fails to see any unique connection between the efficiency of end-use appliances and DG. Thus, SCE questions why developing end-use efficiency improvements would be identified as a policy objective for developing strategies towards the deployment of distributed generation.

The Report also lists as an objective the *Promotion of Resource Planning at Both the State and Local Level*.[10] SCE is particularly concerned with the inference in this section that something in the distribution resource planning process is broken that needs to be fixed. Despite the implications in this section of the Report, SCE currently considers a wide array of options to meet the demand for distribution services, including distributed generation. The role of DG in the distribution planning process has already been extensively evaluated by the CPUC as part of lengthy workshop process in the

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[9] Draft Committee Report, p. 26.
[10] *Ibid.*

DG OIR. SCE questions the value of further examination as part of this strategic plan. In any examination into distribution resource planning, it is critical to acknowledge the role of the utility distribution company. In AB 995 (Public Utilities Code Section 399.2.) the Legislature reaffirmed that it is the utility that is responsible for "operating its own electric distribution grid including, but not limited to, owning, controlling, operating, managing, maintaining, planning, engineering, designing, and constructing its own electric distribution grid...."[11] This essential role should not be compromised in a rush to "promote" distributed generation. Thus, SCE stresses the importance of allowing the utilities the necessary control over the integration of DG into the distribution grid.

VII. Comments On Near-Term Goals

The Report includes as one of its near-term goals an effort *to Identify and Describe Institutional and Regulatory Issues that Interfere with Purchasing, Installation, and Operation of Distributed Generation Facilities.* Under this goal, the Report lists a number of specific tasks including an *assessment of the economic feasibility of third-party financing and third-party ownership of DG with the current level of government and utility subsidy,* and *an effort to expand net-metering programs to other types of DG.*[12] SCE specifically questions the inclusions of these two items in the CEC's DG strategic plan, as they have little to do with an independent analysis of DG technologies and policies and more to do with promoting private interests in DG.

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[11] Public Utilities Code § 399.2(a)(2)
[12] Draft Committee Report, p. 32.

The Report suggests that lessons learned in the 1980s on the use of limited partnerships and other ownership arrangements in connection with Qualifying Facilities might be useful today to facilitate DG ownership. The Report therefore calls for a report to be published explaining how this type of financing is done.[13] SCE believes that it is not the role of the CEC to develop financing mechanisms and business plans for DG ownership. It is imperative that the CEC first assess the cost, benefits, and implications of DG before jumping into the role of facilitator. Even at that point, the CEC must take on a role distinct from the private sector. SCE believes that the private sector is more than able to assess potential financing ownership arrangements to increase opportunities for profitability. Further support through a ratepayer-funded study is unnecessary.

On the issue of "*expanding net metering programs to other types of DG*," SCE is confused as to the goal of CEC in this regard. While the title suggests expansion of "net-metering" under Public Utilities Code Section 2827, the text describes the issue of gross vs. net generation metering by the ISO. These are two distinct issues and, at a minimum, the Report should be clarified to more accurately reflect the intent of this section. If the intent is to support the expansion of "net-metering" under Section 2827 to other types of DG, SCE strongly opposes this effort and maintains that issues regarding retail rates are solely within the purview of the CPUC, not this Commission. If, on the other hand, the issue is the ISO's policy to use gross metering data as a billing determinant, SCE believes that this issue is appropriately before the FERC and has previously been raised in the CPUC's DG OIR. SCE sees no value in providing yet another forum to vet this issue. The goal in this proceeding

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[13] *Ibid.*

should not be to expend resources on reexamining issues that have already been presented to or are pending before other regulatory bodies. Thus, on the issue of net vs. gross generation metering, the CEC should recognize that this issue is most appropriately decided by FERC and/or the Western Electricity Coordinating Council, and remove the issue from the strategic plan.

The Report identifies the *support of publicly-owned utilities adoption of Rule 21 interconnection standards* as another near-term goal.[14] SCE supports this goal. This notion, however, of performing "outreach" services to publicly-owned utilities in connection with DG raises a larger question as to the CEC's role vis-à-vis publicly-owned utilities. The Report notes that approximately 15% of the state's electricity consumers are served by publicly-owned utilities. Yet, up until now, there has been no pressure on publicly-owned utilities to embrace the DG policies imposed on the state's investor-owned utilities. For example, ratepayers of the publicly-owned utilities were not compelled to participate in a $500 million DG incentive program. Publicly-owned utilities were not compelled to offer retail net-metering to small renewable-generators, nor were they compelled to waive standby charges. Although the Report notes at page 22 that publicly-owned utilities have an important role to play in California's distributed generation future, there has been no interest expressed by this Commission to evaluate or modify local policies of a publicly-owned utility which might serve to "discourage self-generation." Instead the Report appears to extol the virtues of publicly-owned utilities[15] without any attempt to critique local (city by city) DG policies.

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[14] Draft Committee Report, p. 33.
[15] Draft Committee Report, p. 22.

The point is that if one goal of this investigation is to analyze, evaluate and develop State policy on DG, this process must, out of necessity, encompass the State's publicly-owned utilities. Too often, publicly-owned utilities have been able to watch from the sidelines free from any regulatory oversight or the costs to implement major strategic policies. The cost burdens associated with these policies have traditionally fallen on the backs of UDC ratepayers simply because of the apparent jurisdictional constraint on the ability of this Commission and the State in general to compel action by publicly-owned utilities. SCE believes that this policy must change. Since publicly-owned utilities play a significant role in this state, a greater emphasis in this Report should be placed on developing meaningful ways to ensure that publicly-owned utilities are actively engaged in this process, rather than allowing these entities to selectively choose when they want to participate.

SCE is opposed to the phrasing of near-term goal #6*: Provide incentives that encourage the deployment of distributed generation, with additional incentives afforded to "environmentally preferred" technologies.*[16] Since the narrative description that follows the title emphasizes the need to evaluate whether additional subsidies, or any subsidies at all, are warranted, it is completely premature to list as a goal the provision of incentives to encourage the deployment of distributed generation. To SCE's knowledge, there is no record in any proceeding evaluating distributed generation that supports the need for DG incentives. Although it is true that through AB 970 the Legislature expressed a willingness to provide incentives for renewable or super-clean DG, there is no basis for the State to adopt a strategic plan

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[16] Draft Committee Report, p. 34.

calling for incentives to encourage the deployment of DG. The State should first complete its evaluation of the various technologies, potential applications, and the implications of DG deployment before it decides to encourage wide-scale deployment by any means, much less financial incentives.

VIII. Comments On Mid-Term Goals

The # 1 mid-term goal identified in the Report is *the reduction in distributed generation equipment costs "to a level that would obviate the need to provide government incentives to deploy distributed generation*."[17] SCE believes that there are at least two things wrong with this goal. First, SCE again questions the underlying belief that the Commission should take-on the role of developing a market for DG, as opposed to providing research related to DG technologies. Although SCE certainly believes that it is appropriate for the State to fund research and development efforts, it should not be a stated goal of the Commission to reduce DG equipment costs. Again, SCE sees this as an appropriate goal for the private sector as part of the overall goal to maximize profitability. Second, the stated goal assumes that government incentives are needed to deploy DG. SCE challenges this assumption and the related assumption that reduction in equipment costs is necessary to obviate the need for such incentives. The underlying conclusion that incentives are necessary or warranted is premature. SCE believes it is the role of the private sector to create and improve the commercial market for DG based on the characteristics and cost effectiveness of the technologies. It should not be

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[17] Draft Committee Report, p. 36.

the goal of this Commission to create a commercial market under the assumption that technological and economic advances will follow.

SCE also challenges whether the Commission should seek to "*[e]stablish markets that pay for the full value of DG, including grid benefits, environmental benefits, greenhouse reduction credits, energy conservation and waste reduction benefits*," as noted in mid-term goal # 3. This issue of valuation and compensation for alleged DG benefits was a contested issue before the CPUC in the DG OIR. As the CPUC has yet to provide any guidance on this topic, it is premature to adopt a goal of establishing markets to provide a compensation mechanism. SCE believes that so-called DG benefits have either not been identified or are already factored into a customer's decision to self-generate, and that the Commission need not support a separate mechanism to compensate DG customers for the purported "benefits" the DG conveys. The CPUC reached a similar preliminary conclusion in CPUC Decision 99-10-065. In that decision, the CPUC recognized that an end-user's decision to install Customer DG is based on the economics of installing and operating that DG. The CPUC was not convinced that assigning a value to this economic choice and then apportioning it among the involved parties was appropriate.[18] Thus, it is premature to talk about establishing goals designed to establish certain DG markets, until it has been established through a thorough examination and an evidentiary showing that such markets are necessary or of benefit to the State's ratepayers.

Finally, the Report includes a mid-term goal *to certify and deploy DG systems in such a way that procuring distributed generation is as routine as*

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[18] D.99-10-065, (mimeo), pp. 22-23.

purchasing appliances for the home. SCE is concerned that one might infer from this goal that the State is more concerned with speed over safety. SCE believes that more emphasis should be placed on safety and system reliability rather than speedy deployment. The fact remains that an electric generator is not the same as a washer or television set. There are significantly greater safety concerns in connecting a generator to the distribution system, and therefore a heightened level of scrutiny should be encouraged, if necessary, to ensure public and employee safety.

IX. Comments On Long-Term Goals

Like many of the near-term and mid-term goals, the long-term goals provided in the report are simply premature. Given the outstanding questions surrounding DG, including *whether it is in the State's interest to promote DG,*[19] it is premature for the Commission to adopt a long-term goal of *maximizing appropriate use of DG* or ensuring that *20 percent of all incremental generation is DG by 2020.*

X. Conclusion

DG has the potential for an increased contribution to the electric industry both as a competitive generation resource for customers and as an on-grid technology option for utilities. SCE supports efforts to develop cost-effective DG, recognizing that we all lose if we fail to responsibly explore opportunities for the appropriate use of this technology. The Siting Committee, however, should neither advocate nor promote DG. Its role should not be to either encourage or discourage the deployment of DG, but rather to

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[19] Draft Committee Report, p. 18.

be an information repository from which state policymakers may access information for use in developing energy policies. The primary goal of the CEC should be to evaluate and assess distributed generation technologies and this should be reflected in the strategic plan. To succeed in this effort to develop unbiased findings and conclusions, the Commission must resist the temptation to step into the role of DG champion. Only by remaining impartial, can the Commission be assured that the public and other stakeholders will have the requisite confidence in its conclusions.